



# REFERENCE-BASED PRICING: PROFESSIONAL SERVICES CASE STUDY

A 300-employee professional services company located in California was facing a difficult decision in 2015. Presented with another double digit increase to their medical plan, shrinking profit margins and employees who were already frustrated by the reductions to their benefits in previous years, the CFO decided to make a bold move.

Being aware of the significant cost savings Reference-Based Pricing was delivering, he asked his broker, Michael Hand, to present an RBP option for their upcoming year. Working together, they developed a plan that would target certain hospital services in an effort to reduce the cost associated with the most expensive and frequent claims, while allowing employees to still access routine physician services without any disruption.

The proposed changes projected to keep their healthcare costs flat for the upcoming year, but the initial feedback from employees was not without concern. After years of operating under a PPO model, many employees were concerned that the new RBP strategy would limit their access to providers or make the already confusing process of coinsurance and copays more difficult to navigate. Undeterred, and unable to absorb the increase in medical costs, the CFO approved a change to the RBP strategy.

## The results were staggering!

Not only did their plan cost in the first year **DECREASE** by 9% over the prior year, but in certain claim categories the savings were astonishing. Outpatient services spend dropped by 35%. Diagnostic Imaging (CT scans, MRI, X-rays) per procedure cost was cut by 50%. Even Inpatient facility costs, which were a particularly large percentage of the group's claims, saw a 25% savings over the prior year.

Just as surprising was the feedback from the employees. With focused education during the plan's implementation and addition of a claim advocate service, most employees found the new model to be more transparent when trying to find the best price for a particular service. They also reported that it was helpful to know the expected cost they would have to pay out of pocket prior to having a service performed.

With a projected 18% increase to current costs, the group was facing over \$600,000 in additional expenses they could not afford. By changing to an RBP plan, in the first year alone they reduced total healthcare costs 9% over the previous year's spend to \$3.4 million in 2015 from \$3.8 million in 2014. In total, an RBP strategy saved the group \$1 million the first year if they had continued down their current path.